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TAGS: [ECON](#) [ENRG](#) [PGOV](#) [PREL](#) [MD](#)
SUBJECT: MOLDOVA INCREASES TARIFFS, GAZPROM TO RAISE PRICES

REF: CHISINAU 1520

Classified By: Ambassador Michael D. Kirby for reasons 1.4(b) and (d)

¶1. (C) SUMMARY: Following Gazprom's price increase on January 1, Moldova was forced to increase tariffs for electricity, heating and natural gas for power generators and consumers. Moldova now pays USD 191 per thousand cubic meters (tcm) for natural gas, up from USD 170/tcm in 2007 (reftel). However, this price is not fixed for the entire year, and, according to MoldovaGaz, will increase to USD 213/tcm on April 1, and to USD 232/tcm in July. Consumer tariffs will be adjusted following the July price increase - but not following the April Gazprom price hike. MoldovaGaz has reached a political agreement with the ruling Communist Party of Moldova (PCRM), negotiating the current price and a commitment for future adjustments, but taking into consideration pre-election year politics. END SUMMARY.

GAZPROM, ENERGY REGULATOR INCREASE PRICES

¶2. (U) On January 18, ANRE, the state energy regulator, increased the price of electricity, heating and natural gas for consumers and increased tariff rates for electrical and heating plants. On average, the consumer tariff for natural gas rose 10% to Moldovan Lei (MDL) 2,775/tcm (about USD 247). Households consuming more than 30 cubic meters per month will pay MDL 3,161/tcm (about USD 281) on average. Electricity prices rose from 96 bani to 98 bani (100 bani equals one MDL) per kilowatt-hour (kwh) for consumers of electricity from Union Fenosa's three distribution companies. Consumers of electricity of the northern, state-owned distribution companies will now pay MDL 1.08, up from MDL 1.01 per kwh. Major industrial consumers linked directly to Union Fenosa's 110-volt network will pay 71 bani/kwh, up from 69 bani/kwh. (NOTE: One USD equals MDL 11.25. END NOTE.) ANRE also increased the tariffs for electricity and heating produced by Moldova's three state-owned power plants, CET-1, CET-2 and CET Nord, a move which will help alleviate mounting debts.

¶3. (U) ANRE Director Vitalie Iurcu justified the tariff increases, citing Gazprom's 12.4% price increase for natural gas supplied to Moldova, a projected 7.8% decrease in gas consumption for 2008 compared with 2007, and a projected 11% increase in MoldovaGaz's transportation and distribution costs because of the expansion of Moldova's gas network. Additionally, Iurcu explained, MoldovaGaz receives transit fees denominated in USD. Because of the appreciation of the MDL relative to the USD, MoldovaGaz's profit from transit fees are projected to be 11% lower. These profits are used to subsidize tariffs for natural gas, so subsidies of gas-generated heating and electricity will decrease as well. Iurcu acknowledged that ANRE's slow action in 2007, when tariffs were adjusted in mid-February following Gazprom's price increase on January 1, 2007, caused MoldovaGaz to

accumulate debts.

¶4. (SBU) In response to complaints from Union Fenosa that the new tariffs favored state-owned companies, ANRE explained that the tariff calculations complied with Moldova's new methodology, which reduced Union Fenosa's profit rate from 23% to 13%. ANRE also argued that Union Fenosa had better infrastructure and enjoyed lower technical and non-technical losses, which lowered their distribution costs by 7.2 bani/kwh compared with state-owned companies. Union Fenosa complained about government favoritism. Rumors abound that the ruling Communist Party of Moldova (PCRM) uses the state-owned energy assets as a source of financing.

MOLDOVAGAZ AND GOVERNMENT REACH PRE-ELECTION DEAL

¶5. (C) On January 23, Ghenadie Abashkin, President of MoldovaGaz, told econoff that he was pleased with the tariff increases for natural gas and other segments of the energy sector, noting that the new tariffs covered his costs. Abashkin, who previously spoke negatively about ANRE and its director to econoff, said he had reached a compromise with the government (GOM) (his minority shareholder) and had worked with ANRE to set prices and jointly develop a new tariff methodology. He acknowledged this was not transparent, since ANRE, according to Moldovan law, is an independent government entity. Abashkin said Gazprom would increase the price for natural gas delivered to Moldova two more times in 2008, according to the formula in the long-term agreement signed at the end of 2006. He said the price would rise to USD 213/tcm on April 1, and again to USD 232/tcm in July. Abashkin said ANRE and the GOM had agreed to increase consumer tariffs again in the summer (but not in the spring),

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prior to the fourth quarter of 2008, well before the national elections in spring 2009. Prices are set to increase again on January 1, 2009, according to the terms of Moldova's five-year deal with Gazprom. However, it remains uncertain whether energy regulator ANRE will increase consumer energy prices prior to the national elections.

COMMENT

¶6. (C) It seems that MoldovaGaz, ANRE and the PCRM have reached a deal, acknowledging the economic necessity of price increases, but seeking to minimize potential political negatives with voters prior to the national elections in ¶2009. Energy-sector companies have long called for tariffs that allow for full-cost recovery, including adequate profits that allow for much needed infrastructure investments and modernization. Price increases for power and heating plants will help alleviate debts, which have been mounting for months. END COMMENT.
KIRBY